

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 12-06-013:

This is the proposed decision of Administrative Law Judge (ALJ) Jeanne McKinney and ALJ Sophia J. Park. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's July 13, 2017 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ KAREN V. CLOPTON

Karen V. Clopton, Chief
Administrative Law Judge

KVC:avs

Attachment

Decision **PROPOSED DECISION OF ALJ McKINNEY AND ALJ PARK**
(Mailed 5/31/2017)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the
Commission's Own Motion to Conduct a
Comprehensive Examination of Investor
Owned Electric Utilities' Residential Rate
Structures, the Transition to Time Varying and
Dynamic Rates, and Other Statutory
Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

**DECISION GRANTING IN PART AND DENYING IN PART THE JOINT
PETITION FOR MODIFICATION OF DECISION 15-07-001 BY
SAN DIEGO GAS & ELECTRIC, SOUTHERN CALIFORNIA EDISON
COMPANY AND PACIFIC GAS AND ELECTRIC COMPANY**

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ATTACHMENT A - ORA Excel Spreadsheet Template

**DECISION GRANTING IN PART AND DENYING IN PART THE JOINT
PETITION FOR MODIFICATION OF DECISION 15-07-001 BY SAN DIEGO
GAS & ELECTRIC COMPANY, SOUTHERN CALIFORNIA EDISON COMPANY
AND PACIFIC GAS & ELECTRIC COMPANY**

Summary

This decision grants, in part, and denies, in part, the December 7, 2016, Joint Petition for Modification of Decision (D.) 15-07-001 filed by San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE). D.15-07-001 ordered SDG&E, PG&E, and SCE to modify their respective tiered residential electric rates to reduce the number of tiers and the differential between tiers over a period of years ending in 2019. At the same time, D.15-07-001 set a cap on the amount by which the rate applicable to Tier 1 usage could increase at any one time. Currently, SDG&E, PG&E, and SCE make the changes to their respective tiered residential electric rates on an annual basis using a tier 2 advice letter process. Today's decision will allow SDG&E, PG&E, and SCE, under limited circumstances, to request a rate change that exceeds the cap using a tier 3 advice letter process. This decision also addresses SDG&E's current difficulties calculating the Super-User Electricity Surcharge.

This proceeding remains open to resolve other issues scoped in this proceeding, including analysis of the California Public Utilities Code Section 745.

1. Background

Decision (D.) 15-07-001 ordered San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southern California

Edison Company (SCE)¹ to flatten the inclining block tiered-rate structure that was in place in 2015, and to default residential customers to a time-of-use (TOU) rate in 2019 (provided that statutory requirements for default TOU are met). The inclining rate structure was intended to encourage conservation through price signals. D.15-07-001 found that many customers did not understand the tiered rate structure and thus did not respond to the price signals from upper tiers. In addition, because of statutory rate freezes, the amount customers paid for their electricity had become disconnected from the cost to provide that electricity. High usage customers (including both low and high income customers), were subsidizing low usage customers (including both low and high income customers), so low usage customers were unaware of the true cost of their energy use. In addition, although the cost to provide electricity varies substantially by time of day, under the tiered rate structure customers paid the same price at all times of the day, regardless of the cost of procuring the electricity at that particular time.

D.15-07-001 ordered the IOUs to flatten the tiered rate structure and switch residential customers to TOU rates starting in 2019. To achieve this, D.15-07-001 set a desired end state for the flattened tiered rate structure that consists of two tiers with a 1:1.25 differential. To ensure that the changes in tier structure would be gradual, D.15-07-001 set a glidepath for changes to be made each year. Because each IOU's rate structure, revenue requirement, and customer base is different, D.15-07-001 set a separate glidepath for each of the IOUs. In addition, D.15-07-001 included a Super-User Electricity Surcharge (SU-E) that would apply

¹ SDG&E, PG&E and SCE constitute the three investor-owned utilities (IOUs) that are respondents to this rulemaking.

to high usage customers (with usage above 400% of baseline) beginning in 2017. The SU-E was included in the glidepath for each IOU.

In the Joint Petition for Modification (Joint PFM) the IOUs continue to support achieving the D.15-07-001 end state by 2019 stating that “(1) the Commission’s ratemaking principles support flatter, more equitable rates, and (2) default TOU is expected to begin the same year.”² The IOUs are concerned, however, that actual conditions (such as changes in residential load) could result in a conflict between the glidepath and the cap on Tier 1 rate increases. If such a conflict arises, the IOUs seek a mechanism to appropriately modify the cap to allow movement toward the glidepath end state to continue.

Importantly, if the Tier 1 Cap is triggered, the excess amount must be collected from the upper tiers. Because the upper tiers must make up the difference, the protection provided by the Tier 1 Cap is limited to those customers whose electric usage is entirely within Tier 1. The glidepath was based on revenue requirements and billing determinants provided by the IOUs in 2015. Each step in the glidepath was pegged to a target tier ratio, and these tier ratios became narrower each year. In addition, some of the steps eliminated existing tiers. The D.15-07-001 glidepath provided tier ratios to serve as guidelines, but acknowledged that adjustments to the tier ratios might be necessary.³

In addition, to ensure that customers with usage only in Tier 1 did not experience rate shock, D.15-07-001 set a cap on Tier 1 increases (the Tier 1 Cap). The level of the Tier 1 Cap was intended to be low enough that it would protect

² Joint PFM at 7.

³ D.15-07-001 at 278, 286, 293.

Tier 1 customers against rate shock, but high enough that it was unlikely to be triggered. In practice, however, actual conditions have differed substantially from those in 2015 making it difficult to adhere to glidepath and the Tier 1 Cap.

For all three IOUs, the Tier 1 Cap was set to limit Tier 1 increases “resulting from the tier consolidation at RAR plus 5% relative to rates for the prior 12 months.”⁴ The RAR refers to the “residential class average rate” and was defined in D.15-07-001 to mean “the average per kilowatt hour (kWh) rate that would need to be collected from all residential customers for each kWh used in order to meet the portion of the system revenue requirement allocated to the residential customer class.”⁵

The glidepaths approved in D.15-07-001 are reproduced below.

Approved Glidepath for Tier Consolidation (PG&E)⁶

	Current	2015	2016	2017	2018	2019
Number of Tiers	4 tiers	4 tiers	3 tiers	2 tiers	2 tiers	2 tiers
Usage covered			Baseline 101 – 200% BQ Over 200% BQ	Baseline > 100% BQ	Baseline > 100% BQ	Same as 2018
Tier Differential		1:1.18:1.5:1.91	1:1.23:1.81	1:1.361	1:1.313	1:1.25
SUE Surcharge ⁷	N/A	N/A	N/A	1:1.89	1:2.033	1:2.19

⁴ D.15-07-001 at 277 (PG&E), 285 (SCE), and 294 SDG&E).

⁵ D.15-07-001 at 276, fn 577.

⁶ D.15-07-001 at 278.

⁷ SUE Surcharge shown as ratio to Tier 1.

Approved Glidepath for Tier Consolidation (SCE)⁸

	Current	2015	2016	2017	2018	2019
Number of Tiers	4 tiers	4 tiers	3 tiers	2 tiers	2 tiers	2 tiers
Usage covered			Baseline 101 – 200% BQ Over 200% BQ	Baseline > 100% BQ	Baseline Over 100% BQ	Same as 2018
Tier Differential		1:1.34:1:56:1.94	1:1.4:1.76	1:1.486	1:1.443	1:1.25
SUE Surcharge ⁹	N/A	N/A	N/A	1:1.88	1:2.04	1:2.19

Approved Glidepath for Tier Consolidation (SDG&E)¹⁰

	Current	2015	2016	2017	2018	2019
Number of Tiers	4 tiers	3 tiers	2 tiers	2 tiers	2 tiers	2 tiers
Usage covered	Tier 1: 0-100% of BQ Tier 2: 101-130% of BQ Tier 3: 131-200% of BQ Tier 4: 200% + of BQ	Tier 1: up to 100% of BQ Tier 2: 101-130% of BQ Tier 3: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ
Tier Differential		1:1.13:2.18	1:1.66	1:1.405	1:1.351	1: 1.25
SUE Surcharge ¹¹	N/A	N/A	N/A	1:1.637	1:1.9	1:2.19

Although D.15-07-001 contemplated a tier 1 advice letter process for implementing each step of the glidepath, a significant questions were identified by parties and Energy Division staff regarding the 2016 rate changes. The glidepath is intended to serve as a guideline, but the deviations in 2016 rate changes were more significant than anticipated. For this reason, by ruling dated March 14, 2016, SDG&E, PG&E and SCE were directed to file a Tier 2

⁸ D.15-07-001 at 286.

⁹ SUE Surcharge shown as ratio to Tier 1.

¹⁰ D.15-07-001 at 293.

¹¹ SUE Surcharge shown as ratio to Tier 1.

Advice Letter for any future glidepath step change that differed from the glidepath as set forth in D.15-07-001.¹²

In light of the concerns raised in early 2016, a “Glidepath Implementation Workshop” was hosted by Energy Division on August 25, 2016 with the goal of addressing glidepath implementation barriers and possible solutions. As part of this workshop, each IOU was asked to model the impact of different sales forecast scenarios on its glidepath.

Although we cannot predict the risk of future conflicts between the glidepath and the Tier 1 Cap with certainty, it is clear additional flexibility and clarification is necessary. This additional flexibility and clarification will prevent a situation where a glidepath step that could appropriately be analyzed through the advice letter process would instead need to be implemented by a Commission decision in a formal proceeding.

2. Joint Petition for Modification

2.1. Nature of Relief Requested

In the Joint PFM, the three IOUs request greater flexibility for the glidepath steps. In addition, SDG&E requested relief to address claimed problems with implementation of its SU-E charge.

Specifically, with regard to the Tier 1 Cap, the IOUs request that the Commission: (1) find that the Tier 1 Cap only applies when two tiers are being combined, or (2) allow an IOU to request an increase in the Tier 1 Cap under certain circumstances, or (3) raise the Tier 1 Cap.

¹² The review and approval requirements for an Advice Letter request are more rigorous with each tier. A Tier 1 Advice Letter is effective pending disposition. A Tier 2 Advice Letter is effective after staff approval. A Tier 3 Advice Letter is effective after Commission approval.

The IOUs request the following findings for both alternatives (2) and (3).

- The requirements of the Tier 1 cap can conflict with the adopted glidepaths for the IOUs and it is now likely that SDG&E and potentially SCE and PG&E may be unable to achieve the adopted glidepaths by 2019 while at the same time adhering to the Tier 1 cap of RAR +5%.
- Circumstances have changed since the approval of D15-07-001 because neither the IOUs nor the Commission anticipated the magnitude of this conflict at the time D.15-07-001 was approved.

For alternative (2), the IOUs request the Commission modify the language on pages 277, 285, and 294 of D.15-07-001 to read as follows (new language is underlined):

Revenue Requirement Increases: allow tiers to move on an equal percent basis, except that Tier 1 increases resulting from annual glidepath changes are capped at the RAR percentage increase plus 5% relative to rates for the prior 12 months, unless the Commission approves via Tier 3 AL Resolution a larger increase to Tier 1 to achieve the glidepath goals timely without unduly burdening low-usage customers.

For alternative (3), the IOUs request the Commission modify the language on pages 277, 285, and 294 of D.15-07-001 to read as follows (new language is underlined):

- Revenue Requirement Increases: allow tiers to move on an equal percent basis, except that Tier 1 increases resulting from annual glidepath changes are capped at the RAR percentage increase plus 8% relative to rates for the prior 12 months, unless the Commission approves via Tier 3 AL Resolution a larger increase to Tier 1 to achieve the glidepath goals timely without unduly burdening low-usage customers.

Regarding the SU-E, which is called the High Usage Charge or HUC in SDG&E territory, SDG&E requests the following finding:

- SDG&E shall defer implementing the SU-E Surcharge until 2017 glidepath issues raised in the PFM have been resolved to avoid the anomalous result of having SDG&E's Tier 2 residential rate exceed the SU-E Surcharge Rate.

The IOUs assert that the Tier 1 Cap only applies when a step change involves a reduction in the number of tiers.¹³ The exact language of D.15-07-001 is as follows:

Revenue Requirement Increases: allow tiers to move on an equal percent basis, except that Tier 1 increases **resulting from the tier consolidation** are capped RAR plus 5% relative to rates for the prior 12 months.¹⁴

The IOUs argue that the phrase “resulting from the tier consolidation” should be interpreted to mean the cap does not apply if the rate change does not include an actual combining of two tiers. In other words, if the change only involved tier differentials, then the cap did not apply.

Should the Commission disagree with this interpretation of D.15-07-001, the IOUs propose two alternative approaches to achieve greater flexibility in the glidepath steps.

The first alternative would allow an IOU to file a Tier 3 Advice Letter (instead of the currently required Tier 2 Advice Letter) if it necessary to exceed the Tier 1 Cap in order to reach the next glidepath step.

The second alternative would modify the cap set in D.15-07-001 to allow greater increases to Tier 1 rates in any future glidepath step. Specifically, the

¹³ Joint PFM at 1.

¹⁴ D.15-07-001 at 277, 285 and 294 (emphasis added).

IOUs propose increasing the cap from RAR + 5% to RAR + 8%. Under this alternative, the IOU file a tier 2 advice letter but could not propose a Tier 1 increase greater than RAR + 8%.

2.2. Requirements for Petition for Modification

A petition for modification is the procedural vehicle specifically designed for a party to ask the Commission to revise a prior decision. Rule 16.4 of the Commission's Rules of Practice and Procedure governs such petitions.¹⁵

Rule 16.4(d) requires that "[i]f more than one year has elapsed, the petition must also explain why the petition could not have been presented within one year of the effective date of the decision."

Because the Joint PFM was filed more than one year after D.15-07-001, we must consider whether the requirements of Rule 16.4(d) have been met. We find that the Joint PFM could not have been presented within one year of the effective date of the decision. There have been significant changes in conditions, such as changes in residential electricity load, revenue requirements and billing determinants, that make it necessary to revisit the directions given to the IOUs in D.15-07-001. We therefore find that the Joint PFM meets the requirements set forth in Rule 16.4.

3. Responses to Joint PFM and Joint Reply; Prehearing Conference

On December 19, 2016, the assigned Administrative Law Judge (ALJ) issued a ruling extending due date for responses and protests to the Joint PFM.

¹⁵ All subsequent references to Rules mean the Commission's Rules of Practice and Procedure, unless otherwise specified.

On January 9, 2017, the assigned ALJ issued a ruling (January Ruling) inviting parties to address the following in protests, responses or replies:

- (1) Brief the assertion made by the utilities that the cap only applies when there is a tier consolidation (and not when there are other rate adjustments, such as tier flattening or addition of a tier (i.e. SU-E), without any tier consolidation)
- (2) List any data, information and analyses that should be included with the Tier 3 Advice Letter proposed by the utilities (should the Commission elect to approve the advice letter process).

On January 27, 2017, the following parties filed responses to the Joint PFM: Utility Consumers' Action Network (UCAN) Center for Accessible Technology (CforAT), The Utility Reform Network (TURN), and Office of Ratepayer Advocates (ORA).

On February 1, 2017, the IOUs filed a Joint Reply

The PHC was held on February 6, 2017. . Each IOU filed a separate prehearing conference (PHC) statement.

At the PHC, the assigned ALJ stated that it appeared that all parties had sufficiently presented their arguments in their pleadings and that no evidentiary hearings and no further briefing were necessary. Parties at the PHC agreed with this assessment.¹⁶

¹⁶ PHC RT at 394.

4. Discussion

4.1. Cap on Increases to Tier 1 Rates

4.1.1. The Tier 1 Cap Applies to All Steps in Glidepath

The IOUs argue that the Tier 1 Cap only applies when a rate change includes a tier consolidation. UCAN, ORA and TURN all disagree. ORA asserts that the Commission's purpose in adopting a cap on Tier 1 was to protect ratepayers from the risk of unreasonable or excessive bill impacts from tier changes, including both consolidation and narrowing of tiers. Similarly, UCAN asserts that the cap's purpose is to protect customers from excessive bill impacts from both tier combining and tier narrowing.

We agree with the intervenors. Today's decision confirms that the purpose of the Tier 1 Cap is to protect low-usage customers from bill impacts resulting from changes to Tier 1 rates resulting from glidepath changes, including both tier consolidation and tier narrowing. Therefore, the IOUs are bound by the Tier 1 Cap for all steps in the glidepath and any deviation from the cap should be addressed by the Commission.

4.1.2. Alternatives

The next issue is whether additional flexibility regarding the Tier 1 Cap is warranted, and, if so, what mechanism should be used to achieve that flexibility.

The IOUs argue that increasing the Tier 1 Cap would resolve any conflicts between the glidepath and the cap. The IOUs propose changing the cap from percentage change in the RAR over the prior twelve months plus 5% to percentage change in the RAR over the prior twelve months plus 8%. Under this approach, an IOU would be able to use a Tier 2 advice letter for any glidepath changes up to the higher cap.

Alternatively, the IOUs propose additional flexibility for rate changes by permitting an IOU to “seek approval of glidepath-conforming changes using a Tier 3 Advice Letter procedure to the extent the Decision’s Tier 1 Cap is exceeded.” The Tier 3 Advice Letter would: “(a) show why it is reasonable and appropriate to exceed the Tier 1 cap to accomplish by 2019 the adopted tiered rate structure and (b) demonstrate that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile.”¹⁷

Intervenors argue that a unilateral increase in the cap through this decision is not warranted or supported by the record. We agree that this request should be denied. Any increase in the cap should take current conditions into consideration so that the need to exceed the 5% cap and the bill impacts of the increase can be as clear as possible. This can be achieved using a Tier 3 Advice Letter.

ORA, UCAN, and TURN do not oppose the Tier 3 Advice Letter approach for maintaining glidepath conformance.

ORA states that it does not object to this approach for deviations from the Tier 1 cap mechanism “under extraordinary circumstances.”¹⁸ Tier 1 rates have seen greater than normal increases since rate reform began in 2014. This is in part caused by higher than expected revenue increases in some instances and lower than projected sales in others.¹⁹

¹⁷ Joint PFM at 3.

¹⁸ ORA Response at 3.

¹⁹ ORA Response at 5.

Where the Joint PFM describes using a tier 3 advice letter to make changes to the Tier 1 Cap so that the glidepath end state could be reached by 2019, the intervenors would expand the options permitted by the Tier 3 Advice Letter to include extending the rate reform glidepath past 2019. Extending the glidepath would mean the required 1:1.25 differential is not reached in 2019.

In particular, UCAN argues that extending the glidepath should be the preferred option for addressing conflicts between the D.15-07-001 glidepath and the Tier 1 Cap.²⁰ UCAN states that earlier in this proceeding it put forth evidence supporting a longer glidepath and that therefore UCAN “is not surprised that Petitioners, and particularly SDG&E, may have trouble reaching the 1.25 tier ratio based on their current rate increase expectations.”²¹ UCAN asks that extending the glidepath be permitted under the Tier 3 Advice Letter, but that any increase to the cap be reserved for a decision.

ORA asserts that it may be “necessary and beneficial” to more gradually transition to 1:1.25 tier ratio. TURN asks that the Commission clarify that extending the period of the glidepath to achieve the desired two-tier structure in 2020 or 2021 is a valid alternative.²²

In contrast, the IOUs prefer not to extend the glidepath. The IOUs argue that D.15-07-001 already determined that the glidepath end state must be reached by 2019 and that an advice letter would not be an appropriate procedural mechanism for changing the end date. SDG&E emphasized the need to continue to move toward the end state to provide relief for customers who are in the

²⁰ UCAN Response at 3.

²¹ UCAN Response at 3.

²² TURN Response at 3.

higher tiers. At the PHC, SDG&E noted that, despite this proceeding's stated goal of bringing rates closer to cost, after three years of tier flattening SDG&E Tier 2 rates are still double Tier 1 rates.

We agree with the IOUs that an extension of the glidepath would require a Commission decision. To assess a proposed change to the Tier 1 Cap the Commission will need to evaluate bill impacts for different customer groups. To evaluate a change to the glidepath end date, however, would require an analysis of how the change in timing will impact other matters, such as the plan to roll out default TOU rates in 2019. Analysis of bill impacts is well-suited to a Tier 3 Advice Letter process, but analysis of a change in the glidepath end date would require significantly more complex analysis which is not well-suited to an advice letter.

Support for allowing changes to the Tier 1 Cap through a Tier 3 Advice Letter process is premised on the IOU showing: (1) why it is reasonable and appropriate to exceed the Tier 1 Cap to achieve the glidepath rate changes, and (2) that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile. If either of these two criteria are not met, then a Commission decision, instead of a Tier 3 Advice Letter, would be necessary.

We agree with the IOUs that using a Tier 3 Advice Letter is a workable solution, provided that the IOUs provide sufficient data for interested parties to respond to the advice letter. Setting a maximum for a Tier 1 Cap increase request will further ensure that the request to raise the cap is appropriate for a Tier 3 Advice Letter. The IOUs suggested that one alternative to resolve the potential for a glidepath/Tier 1 Cap conflict, would be to raise the cap by 3% (to RAR +8%). We agreed with intervenors that a unilateral increase in the cap at this

time is not warranted. However, we believe that setting a maximum cap increase of 3% for requests using the Tier 3 Advice Letter process will provide further assurance that Tier 1 customers are protected.

We find that although the Tier 3 Advice Letter will provide a sufficient opportunity for evaluation of a glidepath change that involves a Tier 1 rate increase that exceeds the cap, it is not the appropriate vehicle for evaluating an extension of the glidepath. In D.15-07-001, the Commission established the glidepath as a flexible guideline for tier flattening, but that when implementing the glidepath ratios, Tier 1 usage must be protected from unacceptable rate increases. The Tier 1 Cap was established to limit the risk of unacceptable rate increases on Tier 1 usage. In addition, extending the glidepath would impact energy proceedings, plans and policies outside of R.12-06-013 and thus would require a level of scrutiny that cannot be delegated to an advice letter. Based on the statements of the IOUs in support of the Joint PFM, a Tier 1 cap of RAR + 8% would avoid any future conflict with the glidepath. Today's decision gives the IOUs a mechanism for requesting a Tier 1 cap that is as high as RAR + 8% without need for a Commission decision. Extending the glidepath beyond 2019, however, must be addressed through a formal Commission proceeding such as another petition for modification.

4.1.3. Data Requirements to Support Tier 3 Advice Letter

A tier 3 Advice Letter filing should include sufficient supporting data for interested parties to evaluate and respond to the proposal. It is not always possible to predict in advance what data will be necessary. Interested parties may make data requests seeking additional information but, as TURN points out, there is limited opportunity for discovery for Advice Letters. In its response to the Joint PFM, TURN stressed the importance of having "sufficient data and

information in the Advice Letter to allow evaluation of the substantive request without discovery.”²³

The January Ruling asked parties for input on what data and information should be provided by the IOUs with a Tier 3 Advice Letter. Intervenors recommended that the following data and information be required:

- Tier price increase in the lower and upper tier and SU-E under each of two alternatives: (a) an increase to the cap, and (b) an extended glidepath. Bill impacts²⁴ for lower and upper tier under both alternatives. (UCAN)
- Number of additional months and/or years necessary to obtain 1:1.25 tier price differential that would be required if 5% cap retained. (UCAN)
- Impact of the requested changes on affordability requirements and other legal requirements for rates. (CforAT)
- Detailed explanation of the reason why the RAR+5% cap cannot be maintained. (TURN)
- Explanation with data of the factors driving any rate increases. (TURN)
- Evaluation of alternative options for maintaining the glidepath, including the option of extending the glidepath timeline. (TURN)
- Showing of cumulative rate and bill impacts (not just year-to-year changes) with granular data to highlight the subgroups of customers most significantly affected under the relief sought by the utility. (TURN)

TURN also asked that parties be given the opportunity to propose alternative solutions for the Commission to consider.²⁵ ORA provided an

²³ TURN Response at 18.

²⁴ The term “bill impacts” in this context should be construed to mean both the percentage change and the absolute dollar change.

²⁵ TURN Response at 18.

Excel worksheet template which ORA recommended be included with any advice letter filing. A copy of the ORA Excel worksheet template is attached to this decision as Attachment A.

SDG&E asks that the Commission decline to establish a template for a future filing now because doing so would be “premature and call for speculative assumptions.”²⁶ ORA’s Excel template would require information on community choice aggregators (CCAs) located within the IOU’s territory. SDG&E objects to this requirement because currently there are no CCAs in SDG&E’s territory.²⁷ SDG&E states that, “we think it is premature to try to set a matrix at this point in time to determine what needs to be reflected in the advice letter.”

We disagree with SDG&E’s assertion that the Commission should not give specific direction on required data at this time. Having sufficient information and data at the time of the advice letter filing will help intervenors and Energy Division staff evaluate the advice letter without delays. The glidepath requires annual changes and in the event that an IOU does file a Tier 3 Advice Letter requesting a change to the Tier 1 Cap it will need to be processed expeditiously. To the extent possible, the Tier 3 Advice Letter should be filed with sufficient data for review, and the non-utility parties are assisting in that regard by identifying their anticipated data needs in advance.

SCE argues that the spreadsheet should not be set in stone.²⁸ Conditions may change and make some data unnecessary at the time of filing. And, as TURN suggests, there may be alternative solutions that could be considered at

²⁶ IOU Reply at 9.

²⁷ Currently there are CCAs in both SCE and PG&E service territories.

²⁸ RT at 400.

the time of the advice letter filing. The Advice Letter should take into account information that is relevant at the point in time that the IOU is filing the advice letter. We approve the data and information requirements suggested by the parties, including ORA's Excel template, but we direct the requesting IOU to consult with Energy Division and intervenors prior to filing to determine if these data requirements should be modified based on current conditions.

Energy Division may then determine, in its discretion, if the minimum data requirements should be modified given current conditions.

4.2. SDG&E's Request to Delay Implementation of SU-E

SDG&E, individually, asked that changes be made to the timing of implementation of the SU-E in SDG&E territory. The SU-E is intended to send a clear price signal to customers who use the most energy to encouraging them to conserve. D.15-07-001 set forth the timing of the SU-E and the calculation for each IOU. All three IOUs were directed to implement their SU-E no later than March 1, 2017. SDG&E's glidepath set a ratio of 1:1.637, calculated by comparing the Tier 1 rate to the SU-E, in 2017. In the Joint PFM, SDG&E asserts that, for 2017, if the Tier 1 Cap is not changed then Tier 2 rates will be higher than the High Usage Charge.

SDG&E calculated illustrative rates using SDG&E's preliminary January 2017 rate revenues and sales both with and without applying the Tier 1 Cap.

SDG&E Calculation of Rates for Summer 2017²⁹

	With Tier 1 Cap	Without Tier 1 Cap
Tier 1	21.8	25.3
Tier 2	42.8	35.6
Tier 3	35.6	41.4

Without the Tier 1 Cap, the High Usage Charge would be higher than Tier 2, resulting in a rate that supports the purpose of the SU-E. Based on this analysis, SDG&E proposes resolving the problem by not applying the Tier 1 Cap to the March 1, 2017 rate change.

Currently, Tier 2 is determined last. First the Tier 1 rate and the High Usage Charge are calculated. Then the Tier 2 rate is set at a level that will allow collection of the remaining revenue requirement. In other words, SDG&E first raises Tier 1 to the maximum allowed under the cap. Next, SDG&E calculates the High Usage Charge. Finally, SDG&E calculates the amount of the revenue requirement that will need to be collected from Tier 2.

TURN asserts that this is an artificial problem, and that SDG&E exaggerates the upper tier rate impacts by using an unreasonable revenue requirement forecast and making absurd assumptions about the SU-E surcharge. Instead, TURN argues that SDG&E should base its calculation on the rate for residential customers in the proposed settlement currently pending in the SDG&E Phase 2 GRC (Application 15-04-012). Regardless of which residential class revenue requirement forecast is used, SDG&E's SU-E problem can be resolved by setting the High Usage Charge in relation to the Tier 2 rate.

²⁹ See Joint PFM at 18.

TURN and ORA³⁰ both assert that a better approach is to keep the Tier 1 Cap but change the way the High Usage Charge is calculated. TURN and ORA suggest that rather than calculate the High Usage Charge in relation to the Tier 1 rate, SDG&E should calculate the High Usage Charge in relation to Tier 2. In this way, the Tier 2 rate could never be higher than the High Usage Charge.

SDG&E does not oppose this approach and proposes that the current differential (1:1.67) would be acceptable. In other words, the only change from the D.15-07-001 glidepath would be to use Tier 2, instead of Tier 1, in the calculation.

While the parties agreed that the High Usage Charge must be higher than the Tier 2 rate, and that setting the High Usage Charge as a ratio to Tier 2 (instead of Tier 1) would resolve the problem, several open issues remain: the new ratio, the timing of implementation, and new data requirements for evaluating the impacts of the recalculated rates. Parties were asked to work together to reach a consensus approach and to file certain additional information with the Commission.

Meanwhile, SDG&E has raised concerns that it will need to delay some rate and billing changes because of difficulties with its current billing system. On November 18, 2016 SDG&E filed an advice letter requesting the establishment of a Customer Information System Memorandum Account to record costs related to the implementation of a new customer information system which SDG&E hopes to implement no later than 2020. SDG&E stated in that

³⁰ ORA at 8, fn 17.

advice letter that it plans to file an application to replace its CIS billing system in the first half of 2017.³¹

On January 9, 2017, the assigned ALJ issued an email ruling directing SDG&E to:

[F]ile supplemental information regarding whether SDG&E's billing system could handle implementation of the SU-E starting April 1, 2017. If not, what is the earliest date that SDG&E could implement the SU-E. For purposes of this supplemental information filing, disregard any issues related to the SU-E being lower than the Tier 2 rate.

This e-mail ruling sought information on the degree to which SDG&E's billing system problems were impacting implementation of the SU-E. This way the Commission could assess the Tier 2/SU-E problem separately from the billing system problems.

On January 17, 2017, SDG&E filed its Response of SDG&E to ALJ McKinney's E-Mail Ruling of January 9, 2017 Regarding Supplemental Information. SDG&E stated that the earliest it could handle SU-E in its billing system is June 1, 2017. SDG&E further stated that it would need 8 weeks to implement the SU-E. To be ready on June 1, SDG&E states it would need a final decision by April 1, 2017.

Both TURN and ORA emphasized the need for SDG&E to promptly implement its SU-E.³² Timely implementation is especially important because customers in all three IOU territories should be subject to the SU-E. This ensures customer understanding that the SU-E is a statewide (not IOU-specific) rate

³¹ SDG&E AL 3007-E/2532-G.

³² TURN Response at 13.

change. However, SCE and PG&E territories implemented the SU-E on schedule and their customers are already subject to it. Consistent implementation of rate changes across all three service territories is an important aspect of residential rate reform. SDG&E withdrew its advice letter (AL 3033-E) and filed a replacement on March 10, 2017 (AL-3055-E).³³ The replacement advice letter models various scenarios that were requested by the parties:

1. Tier 1 with RAR+5% cap and SU-E differential based on SDG&E's SU-E proposal (using guidance from the glidepath but resetting the reference point to be Tier 2)
2. Tier 1 with RAR+5% cap and SU-E differential based on current Tier 2 + 5%.
3. Tier 1 with RAR+5% cap and SU-E differential based on current Tier 2.
4. Tier 1 with RAR+5% cap and SU-E differential set relative to calculated Tier 2 at 1.1
5. Tier 1 with RAR+5% cap and SU-E differential set relative to calculated Tier 2 at 1.2
6. Tier 1 with RAR+5% cap and SU-E differential set relative to calculated Tier 2 at 1.3
7. Tier 1 with RAR+5% cap and SU-E differential set relative to calculated Tier 2 at 1.4
8. Tier 1 with RAR+5% cap and SU-E differential set relative to calculated Tier 2 at 1.5.

SDG&E has filed its new Tier 3 Advice Letter (AL-3055-E) to implement changes in Tiers 1 and 2 rates, and to add the SU-E. Through the Advice Letter review process, Energy Division will determine a reasonable ratio to calculate the SU-E using Tier 2 (instead of Tier 1) for the comparison. D.15-07-001 ordered the

³³ RT at 414, 421.

SU-E to begin in spring 2017 for all three IOUs. SDG&E has missed that deadline. As a consequence, Energy Division will need to address an appropriate start date for SDG&E's SU-E given the competing considerations of implementing the SU-E as soon as possible to match the other two IOUs, the amplification of any rate structure changes made during the summer season, and SDG&E's operational needs. Thus the resolution for AL-3055-E must include both the new SU-E ratio and a new SU-E start date. Both of these issues are appropriate to resolve through the Tier 3 Advice Letter process.

5. Conclusion

We find that additional flexibility regarding the rate changes ordered by D.15-07-001 will make implementation more efficient. For this reason, we approve a tier 3 advice letter process for an IOU to request a glidepath rate change that exceeds the Tier 1 Cap. The Tier 3 advice letter must demonstrate (1) why it is reasonable and appropriate to exceed the Tier 1 Cap to achieve the glidepath rate changes, and (2) that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile. In addition, an increase to the Tier 1 Cap requested through a tier 3 advice letter cannot exceed RAR plus 8% relative to rates for the prior 12 months.

We also find that SDG&E's SU-E calculation should be changed so that it is set in relation to the Tier 2 rate instead of the Tier 1 rate. SDG&E has proposed a new ratio in a pending Tier 3 Advice Letter (AL-3055-E).

6. Comments on Proposed Decision

The proposed decision of the assigned ALJs in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed on

_____, by _____. Reply comments were filed on _____, by _____.

7. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Jeanne M. McKinney and Sophia Park are the assigned ALJs in this proceeding.

Findings of Fact

1. Advice Letters provide a quick and simplified review process for implementation of requests that are not controversial and do not raise important policy questions.
2. A Tier 2 Advice Letter is subject to staff approval.
3. A Tier 3 Advice Letter is subject to Commission approval.
4. D.15-07-001 set a glidepath for each IOU to restructure residential rates to reduce the number of usage tiers and to reduce the differential between tiers.
5. The glidepath extends to 2019.
6. To minimize rate shock, the glidepath for each IOU was made subject to a cap on increases to Tier 1 rates.
7. The Tier 1 Cap applies to both reductions in the number of usage tiers and reductions in the differential between tiers as required by D.15-07-001.
8. D.15-07-001 used then-available data to set the Tier 1 Cap at a level high enough that it was unlikely to be triggered.
9. Actual revenue requirement and billing determinants have made it increasingly likely that it may not be possible to achieve the glidepath end state without changing the Tier 1 Cap.
10. The requirements of the Tier 1 cap can conflict with the adopted glidepaths for the IOUs and it is now likely that SDG&E and potentially SCE and

PG&E may be unable to achieve the adopted glidepath by 2019 while at the same time adhering to the Tier 1 Cap.

11. A Tier 3 Advice Letter is a reasonable and appropriate mechanism for a request to modify the Tier 1 Cap, provide that the Tier 3 advice letter includes a showing that it is reasonable and appropriate to exceed the Tier 1 cap to achieve the glidepath rate changes and data demonstrating that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile.

12. Setting a maximum amount by which an IOU may request an increase in the Tier 1 Cap will help ensure that the request is appropriate for a Tier 3 Advice Letter.

13. It will be easier to for customers to compare and understand residential rate options (time-of-use rates and tiered rates) after the glidepath end state is reached.

14. Implementing default time-of-use rates during the period that tiered rates are being reduced to reach the glidepath end state will result in customer confusion.

15. D.15-07-001 contemplates that the glidepath could be extended beyond 2019, but does not provide a mechanism for doing so.

16. Extending the glidepath beyond 2019 using an advice letter process would not comply with D.15-07-001.

17. The purpose of the SU-E is to encourage high usage customers to conserve.

18. If the SU-E surcharge is lower than the Tier 2 rate, then the intended purpose of the SU-E is defeated.

19. It is important that the SU-E be rolled out to customers of all three utilities as close in time as possible.

20. Modifying SDG&E's SU-E calculation so that it set in relation to Tier 2, instead of Tier 1, will prevent the SU-E from being lower than the Tier 2 rate.

Conclusions of Law

1. The Joint PFM meets the requirements of Rule 16.4.
2. The Tier 1 Cap applies to any step in the glidepath, including steps that do not involve a reduction in or combination of existing rate tiers.
3. Raising the Tier 1 Cap without evaluating the specific conditions underlying the increase is not an optimal.
4. A Tier 3 Advice Letter is an appropriate mechanism for evaluating a request for a Tier 1 Cap increase, provided that the request includes adequate documentation of the need for an increase and the bill impacts of the increase, and limits the requested increase to RAR plus 8%.
5. It is reasonable for SDG&E's SU-E to be calculated in relationship to SDG&E's Tier 2 rate.
6. SDG&E's SU-E should be implemented promptly.
7. The Joint PFM request to allow a Tier 3 advice letter to request an increase in the Tier 1 Cap should be granted subject to conditions.
8. D.15-07-001 should be modified to allow a tier 3 advice letter process to request increases to the Tier 1 Cap under certain circumstances and conditions.
9. D.15-07-001 should be modified to set SDG&E's SU-E in relation to the Tier 2 rate instead of the Tier 1 rate.
10. This Order should be effective immediately.

O R D E R**IT IS ORDERED** that:

1. The Joint Petition for Modification of Decision (D.) 15-07-001 by San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE) is granted in part and denied in part, as follows:

- a. D.15-07-001 on page 277 (PG&E), 285 (for SCE) and 294 (for SDG&E) is modified by deleting, for each utility, the sub-section regarding Revenue Requirement Increases and replacing it in its entirety by the following:

Revenue Requirement Increases: allow tiers to move on an equal percent basis, except that Tier 1 increases resulting from annual glidepath changes are capped at the RAR percentage increase plus 5% relative to rates for the prior 12 months, unless the Commission approves via Tier 3 Advice Letter resolution a larger increase to Tier 1 to achieve the glidepath goals timely without unduly burdening low-usage customers. Any increase requested by Tier 3 Advice Letter cannot exceed RAR percentage plus 8% relative to rates for the prior 12 months. Any such Tier 3 Advice Letter must demonstrate: (1) why it is reasonable and appropriate to exceed the Tier 1 Cap to achieve the glidepath rate changes, and (2) that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile. Any such Tier 3 advice letter must include the data and information set forth below, unless otherwise directed by Energy Division. The term “bill impact” should be construed to mean both change in percentage and change in absolute dollar amount.

- b. Tier price increase in the lower and upper tier and the SU-E under each of two alternatives: (a) an increase to the cap, and (b) an extended glidepath. Bill impacts for lower and upper tier under both alternatives.

- c. Number of additional months and/or years necessary to obtain 1:1.25 tier price differential that would be required if 5% cap retained.
 - d. Impact of the requested changes on affordability requirements and other legal requirements for rates.
 - e. Detailed explanation of the reason why the RAR+5% cap cannot be maintained.
 - f. Explanation with data of the factors driving any rate increases.
 - g. Evaluation of alternative options (if any) for maintaining the glidepath, including the option of extending the glidepath timeline.
 - h. Showing of cumulative rate and bill impacts (not just year-to-year changes) with granular data to highlight the subgroups of customers most significantly affected under the relief sought by the utility.
 - i. Excel worksheet template included in the Office of Ratepayer Advocates response dated January 27, 2017.
2. San Diego Gas & Electric (SDG&E) shall calculate the Super-User Electric (SU-E) Surcharge required by Decision 15-07-001 in relation to Tier 2 instead of Tier 1. Approval of the new ratio and implementation of the SU-E Surcharge in SDG&E territory shall be addressed through Tier 3 Advice Letter.
3. In Decision 15-07-001, footnote 596 is deleted and replaced with the following language: "SUE Surcharge shall be calculated as a ratio to Tier 2."

4. Rulemaking 12-06-013 remains open.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A
ORA Excel Spreadsheet Template